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Memorandum

To: Economic and Community Development Committee

From: Matt Maloney, CMAP Staff

Subject: Economic Development Incentives Snapshot

Date: January 11, 2008

As part of an ongoing series of Snapshot Reports for the Regional Comprehensive Plan, CMAP staff has engaged in researching the important topic of economic development incentives. These types of tools vary widely, from financial incentives (e.g. low interest loans, direct grants, tax abatements, in-kind grants such as land or job training) to non-financial incentives (e.g. infrastructure investment, land acquisition, eased zoning or environmental controls, marketing). Often, both financial and non-financial incentives come bundled together in the form of larger place-based redevelopment efforts such as enterprise zones, tax increment financing (TIF) or various other state and local economic development programs.

While the types of incentive tools vary widely, the stated goals of their use (wealth and job creation) are the same. At the very minimum, state and local governments should use these tools if their application 1) adds more tax revenues than expenditures for service provision and 2) increases employment for previously unemployed local residents. Yet evaluating the real regional impact of these incentives involves disentangling the tools or programs from the wider range of factors impacting a firm's decision to locate, such as the availability of land and labor markets, quality public infrastructure, quality education systems, and access to suppliers and consumers.

At a minimum, this Regional Snapshot paper will seek to 1) describe why these incentive tools are applied by state and local governments with a focus on existing conditions in the Chicago region, 2) summarize the recent empirical research as to their impacts with a special emphasis on the fiscal and employment benefits of popular bundled tools like TIFs and enterprise zones, 3) examine the various impacts of inter-municipal competition (and thus incentive applications) from a regional perspective and 4) attempt to define strategies for a more beneficial application of economic development incentives in the Chicago region with a description of the likely impacts for the regional economy and beyond.

ACTION REQUESTED: Discussion and comments, with direction for staff to proceed with the preparation of the report.